

Message Text

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PAGE 01 CAIRO 04774 131359Z

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ACTION NEA-09

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SUBJECT: CABINET DISCUSSES ECONOMIC QUESTIONS

1. IN FIVE-HOUR CABINET SESSION HELD UNDER PM SALIM ON MAY 11, CABINET MADE DECISIONS ON A BROAD RANGE OF ECONOMIC MATTERS. EXTENSIVE COVERAGE WAS GIVEN TO ANNOUNCEMENTS IN ALL PAPERS. MAJORITY OF MOVES MUST STILL BE SUBMITTED TO PEOPLE'S ASSEMBLY FOR APPROVAL, PROBABLY BY PM IN HIS SPEECH TO ASSEMBLY ON MAY 13, SINCE THEY MODIFY EXISTING LAWS. SOME OF THEM MAY REQUIRE CONSIDERABLE TIME IN THE PROCESS, BUT AS AN INDICATION OF GOE'S THINKING ON GENERAL SUBJECT THEY ARE WORTHY OF ATTENTION EVEN IN PLANNING STAGE. A FEW MARK FAIRLY SIGNIFICANT DEPARTURES FROM PAST PRACTICE.

2. AMONG MORE INTERESTING PROPOSALS;

A. PERMITTING PUBLIC SECTOR COMPANIES AND ORGANIZATIONS TO DEAL WITH ANY BANK. AT PRESENT, EACH GOE BANK HAS RESPONSIBILITY FOR A SPECIFIC SECTOR OF THE ECONOMY, AND COMPANIES IN THAT SECTOR MUST PLACE ALL THEIR ACTIVITIES
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PAGE 02 CAIRO 04774 131359Z

WITH THE AUTHORIZED BANK. NEW PROCEDURES ARE INTENDED TO

STIMULATE COMPETITION AMONG BANKS AND IMPROVE THEIR SERVICES TO NATION. PRIVATE SECTOR HAS ALWAYS BEEN FREE TO DEAL WITH ANY BANK.

B. INCREASING CAPITAL OF INDUSTRIAL BANK FROM L.E. 2 TO L.E. 10 MILLION. INDUSTRIAL BANK, WHICH HAS BEEN UNDER SUPERVISION OF BANK OF ALEXANDRIA SINCE 1972, MAKES LOANS TO CRAFTSMEN AND SMALL AND MEDIUM-SIZED INDUSTRIES IN THE PRIVATE SECTOR. IT IS NOT YET CLEAR THAT THE BANK WILL AGAIN BECOME A SEPARATE ENTITY, ALTHOUGH IT SEEMS POSSIBLE SINCE ANNOUNCEMENT SAID IT WILL FUNCTION AS AN ADVISOR TO GOE ON PRIVATE SECTOR INDUSTRIALIZATION MATTERS. IBRD IS CONSIDERING \$25 MILLION LOAN TO BANK, FOR USE IN RELENDING TO EGYPTIAN BUSINESSMEN AS FOLLOW-UP TO EARLIER LOAN FOR SAME PURPOSE.

C. AUTHORIZING CENTRAL BANK TO CONSULT WITH COMMERCIAL BANKS TO DETERMINE PERIODIC CHANGES IN PRICES OF FOREIGN CURRENCY IN LOCAL MARKET. THIS MOVE, WHICH PRESS REFERS TO AS METHOD OF ENCOURAGING EGYPTIANS LIVING ABROAD TO CHANNEL THEIR FOREIGN EARNINGS THROUGH PARALLEL MARKET TO INCREASE ASSETS OF THAT MARKET, IS OBVIOUSLY INTENDED TO CORRECT PRESENT SITUATION, IN WHICH PARALLEL MARKET IS OUT OF FUNDS AND BLACK MARKET IS BURGEONING BECAUSE OF HIGHER RATES BEING PAID. (DETAILS OF CURRENT DIFFICULTIES IN THIS SPHERE FOLLOW SEPARATELY.)

D. AMENDING LAW ON TENDERS AND AUCTIONS TO EXCLUDE POSSIBILITY OF COMMISSIONS ON GOVERNMENT-TO-GOVERNMENT DEALINGS. THIS STEP IS DESIGNED TO ELIMINATE MIDDLEMEN WHO HAVE MADE LARGE PROFITS IN COMMISSIONS ON SALES OF COMMODITIES TO (PRINCIPALLY) BLOCK COUNTRIES WITH WHICH EGYPT HAS TRADE AGREEMENTS. WE ARE INFORMED THAT GOE IS INTENT ON FORCING ACCEPTANCE OF THIS PRINCIPLE, EVEN THOUGH HISTORICALLY THEY HAVE HAD LITTLE SUCCESS IN EFFORT. CHANGING BASIC LAW INVOLVED WILL CLEARLY STRENGTHEN EGYPTIAN HAND.

E. AMENDING LAWS OF SUPPLY AND TAXATION TO INFLICT STRICTER PUNISHMENT ON VIOLATORS.

F. APPROVING DRAFT LAW TO PROVIDE PENSIONS FOR ORPHANS, LIMITED OFFICIAL USE

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PAGE 03 CAIRO 04774 131359Z

WIDOWS, DIVORCED WIVES AND ELDERLY. PROPOSAL, TO BE FINANCED BY ONE-THIRD OF PRESIDENCY BUDGET AND ONE-PERCENT OF BUDGET OF ALL OTHER MINISTRIES, IS EXPECTED TO COST LE 13 MILLION.

G. APPROVING DRAFT LAW ON UNIFIED SOCIAL INSURANCE. DETAILS ON THIS LAW ARE TO BE ANNOUNCED SOON.

3. COMMENT. NEW CABINET HAS YET TO HAVE FIRST REALLY
SIGNIFICANT EFFORT EMERGE FROM ITS DELIBERATIONS, BUT
IT IT OBVIOUSLY TRYING HARD. MAJORITY OF ABOVE STEPS WERE
FIRST CONSIDERED BY HAGAZY CABINET, FACT WHICH IS PROBABLY
NOT LOST ON PUBLIC IN GENERAL, BUT WERE NEVER IMPLEMENTED.
IF SALIM CAN GET THEM ENACTED, IT WILL STRENGTHEN IMAGE OF

HIS GOVERNMENT SOMEWHAT.
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